

LEADERSHIP IN PUBLIC FINANCIAL MANAGEMENT

KENYA'S TAX SYSTEM FROM 30,000 FEET

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Overview

Outlook: Positive

Revenue Collection: CITY, and PITY strong when compared to regional, income group, and world average values.

Problems:

This document provides a high-level profile of the structure and performance of Kenya's tax system. Specifically, it examines tax system revenue effort, tax structure, and revenue performance based on a series of quantitative and qualitative indicators, and compares Kenya with other countries in Sub-Saharan Africa, other low income economies, and the rest of the world.

The analysis is supplemented by several tables that provide information about the tax structure and revenue performance of the corporate income tax (CIT), the personal income tax (PIT) and the Value-added Tax (VAT). All Kenya tax data are from Fiscal Year (FY) 2008-09. Information is also provided on the performance of Kenya's tax system over the period 2004/05 to 2009/10.

A comprehensive database of comparative data for nearly 200 countries can be found at www.collectingtaxes.net

Revenue Effort

"Revenue Effort" provides a measure of the amount of revenue from income and sales taxes that a government collects as a share of GDP. From this perspective, Kenya at 19.2 percent of GDP in 2008-09 is above regional, income group average values at 17.5 and 14.8 percent of GDP respectively, and is similar to the global average of 19.8 percent.

Over the last 5 fiscal years, Kenya's revenue effort increased from about 17 percent to 20 percent of GDP primarily due to improved CIT and PIT collections.

About a quarter of Kenya's revenue effort over the last five years has been attributable to VAT revenue, averaging about 5.5 percent of GDP. Excises and international trade taxes have averaged about 3 percent of GDP and 2.1 percent of GDP, respectively. Income taxes have averaged about 6.3 percent of GDP.

The growth in revenue effort and productivity is largely explained by a broadening of the tax base and modernization of revenue administration. This growth has been a key driver of increased social and capital investment spending in Kenya. A priority of the Medium Term Expenditure Framework is increased public spending to improve public sector performance and social service delivery. Social spending with focus mainly of key infrastructure projects which include ICT, Energy, and Transportation services.

Tax Structure

Kenya's Corporate Income Tax (CIT) rate, at 30 percent, is similar to regional average values (30.27 percent) but is above income group (28.20 percent) and world average rates (25.32 percent).

Personal Income Tax (PIT) in Kenya is progressive with individual income taxed at rates from 10 to 30 percent and is broadly consistent with regional, income group, and world average rates.

The "tax wedge" or amount of tax imposed on labor at 10.00 percent lower than regional, income group, and global average values. A large tax wedge would encourage capital

intensive investment and growth in employment would be less than with a smaller tax wedge.

Kenya's Value Added Tax (VAT) rate at 16 percent is similar to the Sub Saharan Africa region, at 15.91 percent, international averages, at 15.12 percent, and the world average of 15.77 percent. In US dollar terms, the VAT threshold, or the level of annual turnover at which taxpayers must register and file regular VAT returns is \$75,000, is well above regional, income group, and worldwide average values.

Revenue Performance and Productivity

Tax revenue performance in Kenya, at 19.2 percent of GDP, is strong when compared to regional, income group, and world average values. Within the Sub-Saharan Africa region, Kenya has among the highest revenue effort ratios. Measured on a revenue productivity basis--the portion of GDP in revenue that is mobilized for each point of tax rate—Kenya also performs well. Both corporate and personal income tax productivity is above income, regional, and world average values. VAT productivity at .35 is above regional and income group average values and slightly below the world average value of .41.

Revenues from CIT, at 3.90 percent of GDP, are at higher levels when compared to regional, income group, and the global average value. Kenya's CIT revenue productivity is at .13, which is also higher than regional and income group values, and is similar to the world average value, reflecting few exemptions and strong compliance.

Kenya's PIT collection, at 4.10 percent of GDP, is stronger than regional, income group, and world average values. PIT revenue productivity, at 0.16, is also higher than regional, income group, and world average values.

Collection of VAT at 5.6 percent of GDP is higher than the regional and income group average collection of VAT but lower than the world average VAT collection of the 6.33

percent of GDP. A recognized measure of VAT performance is the VAT Gross Compliance Rate (GCR) which is the ratio of potential VAT collections—if all final household consumption had been taxed at the standard rate-- to actual VAT collections. On this basis, the average VAT Gross Compliance Rate (GCR) in the world is 63.11 percent, but the GCR for the Kenya's VAT is 42.80 percent which is broadly in line with regional and income group averages.

Tax Administration Organization and Efficiency

Data on tax administration structure and performance were very limited and therefore no specific tax administration indicators are presented here.

ANNEX: Kenya's Collecting Taxes Indicators

Company Income Tax	CITR Tax Rate	CITY Revenue as % GDP	CITPROD Revenue Productivity
Kenya	30.00	3.90	0.13
Sub-Saharan Africa	30.27	2.65	0.10
Low Income Economies	28.20	2.12	0.10
World	25.32	3.33	0.14

Income Taxes on People	PITMINR Minimum Tax Rate	PITMINL Minimum Income Level (Multiples of GDP _{pc})	PITMAXR Maximum Tax Rate	PITMAXL Maximum Income Level (Multiples of GDP _{pc})
Kenya	10.00	1.91	30.00	7.31
Sub-Saharan Africa	10.11	2.55	35.21	19.11
Low Income Economies	9.52	3.00	30.95	25.33
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY Revenue as % GDP	PITPROD Revenue Productivity	SSR Mandatory Combined Social Contribution Rates	WEDGE Combined Rate of Personal and Labors Taxation
Kenya	4.10	0.16	10.00	10.00
Sub-Saharan Africa	2.60	0.08	9.97	12.20
Low Income Economies	2.02	0.07	11.80	13.98
World	3.36	0.13	16.16	20.61

Value Added Tax	VATR VAT rate	VATY Revenue as % GDP	VATGGR Gross Compliance Ratio	VATPROD Revenue Productivity	THRESHOLD Mandatory Registration/ Filing (annual Turnover in USD)
Kenya	16.00	5.60	42.80	0.35	75,000.00
Sub-Saharan Africa	15.91	4.31	41.42	0.28	54,441.74
Low Income Economies	15.12	4.51	40.02	0.29	49,103.00
World	15.77	6.33	63.11	0.41	40,552.18

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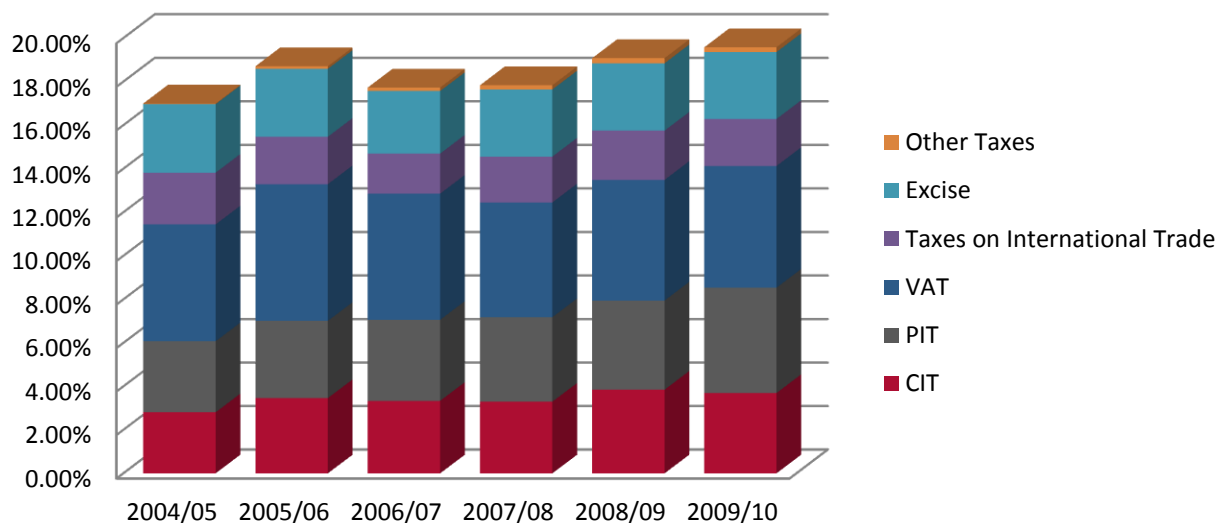
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Kenya Central Government Revenue (in % of GDP)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
CIT	2.81%	3.46%	3.34%	3.30%	3.85%	3.69%
PIT	3.27%	3.55%	3.73%	3.89%	4.10%	4.85%
VAT	5.37%	6.28%	5.79%	5.27%	5.54%	5.59%
Taxes on International Trade	2.38%	2.18%	1.84%	2.10%	2.26%	2.16%
Excise	3.15%	3.12%	2.87%	3.08%	3.09%	3.07%
Other Taxes	0.03%	0.12%	0.16%	0.19%	0.23%	0.22%

Source: IMF Global Financial Statistics Database

**Kenya Central Government Revenue
(in % of GDP)**



Source: IMF Global Financial Statistics Database